

# **CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE**

## **Minutes**

**February 18, 2004**

The Capital Projects and Bond Oversight Committee met on Wednesday, February 18, 2004, at 8:00 AM, in Room 131 of the Capitol Annex. Representative Jodie Haydon, presiding Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Robert Leeper, Co-Chair; Representative Jodie Haydon, Co-Chair; Senators Tom Buford, Virgil Moore, and Jerry Rhoads; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the committee: Jamie Link, Department for Facilities Management; Bill Hintze, Governor's Office for Policy and Management; Ken Clevidence and Dall Clark, University of Kentucky; Sandy Williams, Kentucky Infrastructure Authority; and George Burgess, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Senator Buford made a motion to approve the minutes of the January 21, 2004 meeting as submitted. The motion was seconded by Representative Marcotte and passed by voice vote.

Representative Haydon called on Ms. Collins to review correspondence and information items. Ms. Collins said members' folders included one item of correspondence – the Kentucky Lottery Corporation's monthly financial report for December 2003. Also included in members' folders were three information items: proposed legislation relating to the jurisdiction of the Capital Projects and Bond Oversight Committee; a summary of capital provisions for proposed 2004-06 budgets; and a staff update on various capital projects. Ms. Collins noted that in the Governor's proposed budget, the Emergency Fund would receive a \$5 million appropriation and the Contingency Account would receive a \$1.4 million General Fund appropriation. However, there is also a provision that up to \$1.2 million from the account may be made available for the state's response to another phase of the federal Base Alignment and Closure (BRAC) process.

Representative Haydon asked Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management, and Jamie Link, Acting Commissioner of the Department for Facilities Management, to present the monthly Finance and Administration Cabinet project report.

Mr. Hintze reported a \$280,000 scope increase for the Kentucky State Reformatory Transition Dorm project. The project was approved by the Committee in 1998 at a scope of \$900,000 (\$810,000 federal funds and \$90,000 agency funds). Mr. Hintze said this project was

initially proposed as a 150-bed transition dorm, but the Department of Corrections has now decided the project should be an 80-bed medical unit to meet an increasing need for the prison population.

Representative Wayne asked why it has taken five and one-half years to complete this project. Mr. Hintze said the project, as originally proposed, was overprogrammed, and the Department did not have enough money to complete the project. Consequently, it was scaled back to a 120-bed dorm, but they still did not have enough money to build a dorm of that size. The Department then decided, based on the evolving needs of the Corrections system, to instead build an 80-bed medical unit. Even with this change, Mr. Hintze said a scope increase is needed. After identifying a funding source for the scope increase, the Department was unable to proceed because of state budget cuts. The Department has now decided to use the following sources to provide the additional \$280,000 needed for the project: \$150,000 from institutional farms restricted funds, \$75,000 from medical restricted funds, and \$75,000 from miscellaneous maintenance pool funds.

Representative Wayne asked if the Department of Corrections has prepared an analysis of its needs for medical services. Mr. Hintze said last fall the Justice Cabinet changed the process for the delivery of medical care throughout the Department of Corrections. They cancelled a contract arrangement and partnership with the University of Kentucky in order to procure health care through a network of providers. As a result, medical care is much more efficient and cheaper. Mr. Hintze said he did not know about the physical plant layout and those needs.

Representative Wayne requested that the Department of Corrections provide information to the Committee about plans to address future medical needs of the prison population. He asked that the report address the system's physical plant layout.

In response to a question from Senator Buford, Mr. Hintze said the medical unit project is scheduled for completion this summer.

Mr. Hintze next reported an unbudgeted project for the Kentucky State Police (KSP) known as the Redundant Array of Independent Drives (RAID) Storage Expansion for the Automated Fingerprint Identification System (AFIS). The project scope is \$670,000 and the source of funds is \$502,000 in federal funds and \$168,000 in restricted (agency) funds. This purchase of computer hardware is needed because of the rapid increase of fingerprint submissions from live-scan fingerprint collection devices from all law enforcement agencies in the state.

Mr. Hintze next discussed an unbudgeted project known as the VETS Building Replacement. The Department of Military Affairs plans to construct a new multi-purpose building at the Boone National Guard Center in Frankfort. This building will replace the current building, which has had serious problems with water and mold. Mr. Hintze said the Department of Military Affairs concluded that repair of the existing building would not be an efficient use of funds. The project scope is \$1,100,000 (\$825,000 in federal funds and \$275,000 from the Department's Maintenance Pool).

Representative Marcotte made a motion to approve the three Finance Cabinet projects [agenda items 6A (1)-(3)]. The motion was seconded by Senator Rhoads and passed by roll call vote. (All members present voted “Yes” with one exception. Representative Wayne said he was voting “Yes” for the first two projects and “No” for the Department of Military Affairs’ project.)

Mr. Hintze next reported two Purchase of Agricultural Conservation Easements (PACE) program purchases for the Department of Agriculture. The Department purchased conservation easements for a 539-acre farm in Henry County at a cost of \$592,944 and a 526-acre farm in Logan County at a cost of \$525,640. Representative Haydon said acquisition of conservation easements over \$400,000 are required to be reported to the Committee, but no further action is necessary.

Representative Wayne asked how much in unobligated funds is currently available to the PACE program. Mr. Hintze said he was not sure, but he thought there is approximately \$2-\$3 million in uncommitted funds available for the program.

At Representative Wayne’s request, Mr. Hintze agreed to check on the current status of PACE funding, and report back to the Committee.

Next, Mr. Hintze and Mr. Link updated the Committee on the State Office Building Renovation/Long Range Plan for housing state agencies in Frankfort. Mr. Hintze said for more than a decade, state officials have recognized the need to renovate the State Office Building. The building needs to have asbestos removed and a complete renovation since most of the interior of the building dates back to when the building was built in 1938. The 1994 General Assembly provided approximately \$10 million in renovation and repair funds, and at that time, they thought the building could be renovated on a floor-by-floor basis. However, by 1996, they recognized \$10 million was insufficient, and the 1996 General Assembly provided another \$12 million for the renovation project. The Finance Cabinet soon recognized this still was not enough money, and it would not be possible to renovate the building with people in place. Consequently, the 1998 General Assembly authorized construction of a new office building for the Transportation Cabinet. That building was recently completed, and employees were moved out of the old State Office Building.

Mr. Hintze said the now empty building needs to be completely renovated, including the working mechanics of the building. He said this is a part of the larger plan to systematically renovate older state office buildings in Frankfort and eventually to reduce the use of leased space.

Mr. Link said the Transportation Cabinet moved into the new State Office Building in early January. He said the Finance Cabinet has awarded a contract for the abatement of the asbestos and other hazardous materials in the building, and they anticipate proceeding with that work in April once the equipment and furnishings have been removed from the building. (The 2003 General Assembly authorized funds from the Capitol Renovation Project, approximately \$5 million, be used for asbestos abatement.) Mr. Link said the abatement work should take approximately six months, and when completed, the building will be a shell.

The renovation project, which has not been funded yet, will include refitting the building and bringing it up to modern standards for both technology and current building codes. (The Governor's recommended 2004-06 capital budget calls for General Fund-supported bond funds of \$46 million for renovation of the building). Mr. Link said once this building renovation is complete, it can be used to house employees now in the Capital Plaza Tower while it is being renovated. Once the Capital Plaza Tower is renovated, the Cabinet for Human Resources (CHR) building staff could move into the Tower while the CHR building is being renovated. Once CHR has completed all the renovations, state-owned space will be freed up to allow for state agencies in leased space to move into state-owned space, which would address a mandate to reduce the state's reliance on leased space.

Senator Moore asked if a study was done as to whether the State Office Building should be replaced or renovated. Mr. Link said according to their analysis, the state will need to spend approximately \$3 million to abate the hazardous materials, regardless of whether the building is renovated or razed. In addition, the cost of a new building, including associated demolition, would cost approximately \$65-\$70 million.

Senator Leeper asked if it would be quicker to build a new building or to renovate. Mr. Link said it would take less time to renovate. They anticipate the renovation should take 18 months, while new construction would take approximately two years. Mr. Hintze added that they have already completed the design. Mr. Link said if the renovation is approved, they will bid it prior to completion of the asbestos abatement, so they can immediately begin renovating the building.

Senator Buford asked if a construction cost estimate was prepared for a new building. Mr. Link said a cost estimate for the construction of a new facility was done by the Finance Cabinet's Division of Engineering. The estimate was based upon past construction projects and what it costs to build in Franklin County.

Senator Buford asked if the asbestos could be encapsulated instead of removed. Mr. Link said that alternative was considered, but it was determined to not be feasible. He explained that the spray-on fireproofing is flaking off and the other materials, as well as the building systems themselves, are out of date. He said the once the State Office Building is remodeled, it will be able to hold 1,100 employees. Currently, the building can hold 850 employees.

In response to another question from Senator Buford, Mr. Link said once the State Office Building, the Capital Plaza Tower, and the CHR Building are renovated, the state will save approximately \$4 million annually in rental costs by moving agencies out of leased space into the newly renovated space. Mr. Hintze said they are also looking to consolidate the Environmental and Public Protection Cabinet because this Cabinet is currently located in over 27 separate leased structures in Frankfort.

Senator Rhoads asked what process the state went through to determine the overall renovation costs and whether the Finance Cabinet will have to ask for more money to finish the project. Mr. Link said the \$46 million cost was estimated by the Finance Cabinet's Division of Engineering, as well as outside consultants. He said they feel very comfortable that \$46 million

is sufficient to do the work that is required if the 2004 General Assembly appropriates the funds for the project.

Mr. Ken Clevidence, Associate Vice President for Fiscal Affairs, University of Kentucky (UK) and Mr. Dall Clark, Director of Capital Projects, UK, discussed a project modification for the UK Student Housing Facility project. This project was authorized by the 2002 General Assembly at a scope of \$46 million and consists of four new residence halls on two sites on campus. The University wants to use a portion of the funds authorized for the new dormitories to address certain ADA and code issues in an existing dormitory, the Kirwan-Blanding Complex, since residents in the new facility will use the dining facilities at the Kirwan-Blanding Complex.

Mr. Clevidence said the Kirwan-Blanding housing complex was built prior to the Americans with Disabilities Act, and currently no rooms will accommodate a disabled student. The new student housing facilities being built adjacent to Kirwan-Blanding will be 100% accessible to the disabled, and students residing in the new housing facilities will need to use Kirwan-Blanding for dining and food service. The University plans to spend approximately \$500,000 at Kirwan-Blanding to install a new elevator and modify public restrooms and public entrances so they are fully accessible to the disabled.

In response to a question from Representative Wayne, Mr. Clevidence said the Kirwan-Blanding Complex has sprinklers, and the new facilities will also be 100% sprinkled.

Senator Buford made a motion to approve the project modification. The motion was seconded by Senator Rhoads and passed by unanimous roll call vote.

Representative Haydon said the next agenda item was the bond activity report from the Office of Financial Management. He asked Ms. Sandy Williams, Kentucky Infrastructure Authority (KIA), to report a new item proposed for KIA assistance. Ms. Williams presented a Fund F loan request in the amount of \$1,423,587 for the City of Henderson. The proceeds will be used to construct a new 1,000,000 gallon elevated water storage tank and approximately 1,500 linear feet of 18-inch water line.

Representative Damron made a motion to approve the Fund F loan. The motion was seconded by Representative Wayne and passed by unanimous roll call vote.

Representative Haydon said included in members' folders were two reports from the Kentucky Infrastructure Authority (KIA) regarding various new KIA 2020 Account/Fund B Grants and new Coal Development Grants. The Committee has already approved the 2020/Fund B Grants and the General Assembly authorized each of the coal and tobacco projects identified. No further action was required.

The next report was provided by George Burgess, Executive Director for the Office of Financial Management. He first presented one follow-up report for a previously approved bond issue: Kentucky Housing Corporation Housing Revenue Bonds, 2003 Series G, \$45,000,000. Representative Haydon said this bond issue was approved by the Committee at its September meeting, and no further action was required.

Representative Haydon noted that also on the agenda were follow-up reports for previously approved Kentucky Economic Development Finance Authority bond issues, which required no further action.

Representative Haydon then asked Mr. Burgess to present the new school bond issues. Mr. Burgess said there were 15 school bond issues with School Facilities Construction Commission (SFCC) debt service participation: Breathitt County, Cloverport Independent (Breckinridge Co.), Daviess County, Dayton Independent (Campbell Co.), Erlanger-Elsmere Independent (Kenton Co.), Floyd County, Franklin County (2), Hardin County, Harlan County, Martin County, Monroe County, Pike County, Spencer County, and Union County. Mr. Burgess said with the exception of the Spencer County School District, none of these issues required a local tax rate increase. The Spencer County School District recently enacted a non-recallable Growth Nickel tax to fund the issue pursuant to the 2002-04 Budget Bill. Mr. Burgess said the bond issues for Breathitt County and Monroe County were previously approved by the Capital Projects Committee. They are being reported again due to a change in the size of the bond issue.

Representative Marcotte made a motion to approve the 15 school bond issues. The motion was seconded by Representative Wayne and passed by roll call vote. Seven members voted affirmatively; Representative Damron abstained from the vote, citing a potential conflict of interest.

Representative Damron noted that in the budget proposed by Governor Fletcher there is no new SFCC allocation proposed, and without additional SFCC funding, the amount of money available to renovate schools will decrease dramatically.

Representative Haydon said there were four locally-funded school bond issues submitted to the Committee for review this month: Anderson County, Daviess County, Mercer County, and Monroe County. He said all disclosure information has been filed, and no further action on the bond issues is required.

The Committee's next meeting is scheduled for March 17 at 8 a.m. in room 131.

With there being no further business, the meeting was adjourned at 8:50 a.m.